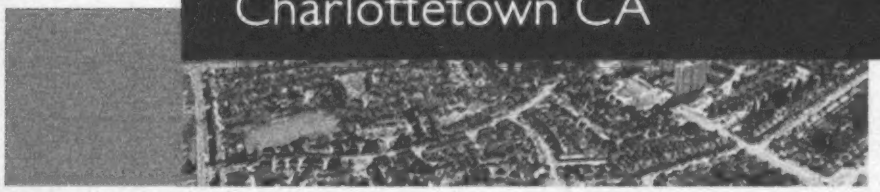
HOUSING MARKET INFORMATION

# HOUSING MARKET OUTLOOK

## Charlottetown CA



Canada Mortgage and Housing Corporation

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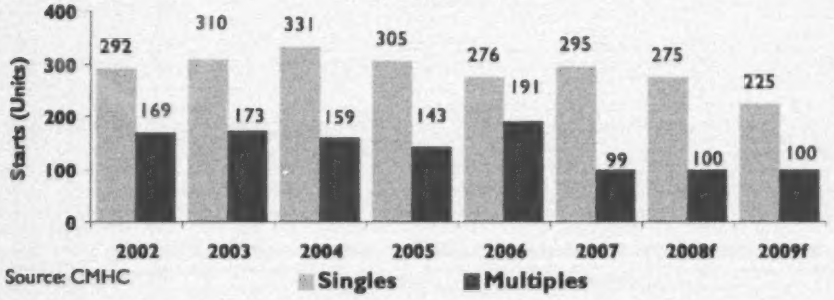
## Housing Market to Moderate in 2009

Starting in 2001 the Charlottetown housing market posted seven years of impressive growth that mirrored the national trend. Some of the key reasons for this increase in activity were low interest rates, low vacancy rates, steady employment growth, positive in-migration, and relatively low home prices. However, in 2005 rising vacancy rates and new home prices started to have a negative impact on the demand for new properties. The increase in multiple unit starts also created a situation where there was a temporary oversupply of rental units that was not fully absorbed until the end of 2007. However, one area where new construction has continued to remain strong is multiple units intended for homeownership. A key reason for the increased activity in this part of the market is the relative lower cost of semi-detached units compared to single-detached homes. Despite the forecasted increase in semi-detached units over the next two years it is expected that the overall housing market will moderate over the forecast period.

Figure 1

**Single Construction to Moderate Over the Forecast Period**




Source: CMHC

Table of contents


1 Housing Market to Moderate in 2009

2 Rental Market
Vacancy Rate to Decline in 2009

3 Resale Market
MLS® Sales Will Not Match the Peak Level Set in 2007

3 New Home Construction Poised to Slow

4 Forecast Summary

5 CMHC - Home to Canadians



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Employment growth is forecast to post a slight improvement from the 2007 level and remain positive through the end of 2009. During the first three quarters of 2008 the increase in employment in Charlottetown can be attributed mainly to the public service and finance/insurance sectors. Employment in the construction sector started to decline in 2008 as numerous large non-residential projects are coming to an end. The net result of the increased employment levels is that the capital region is more attractive for job seekers when compared to other parts of the province. This fact has lead to the continued trend of urbanization in the province, as Islanders continue to move to the capital region from more rural parts of the province.

Positive net-migration has been one of the main factors contributing to the sustained demand for housing in the capital region. The results from Statistics Canada's 2006 Census revealed that the Charlottetown CA recorded a population gain of almost 1,400 people or 2.4 per cent, from 2001 to 2006. It also showed that within the CA, the Town of Stratford posted the largest population gain during this period, with an increase of over 700 people or 12 per cent. This helps explain the substantial increase in new construction in the Stratford area and why the Town of 7,000 residents is able to rival the City itself for annual single-detached starts. In addition to the Census, Statistics Canada produces a series of data based on income tax returns (Tax Filer Data) that details the migration patterns by county on an annual basis. The results of this survey reveal that in any given year about 70 per cent of the people moving to the capital region are coming from elsewhere in the province. It also shows that of the remaining 30 per cent, the vast majority are coming from another major urban centre in Canada. These results seem to confirm the local theory that there are a number of ex-Islanders moving home to either retire or finish their careers. Another benefit this trend provides is that many of the people returning home are coming from centres with much higher priced housing markets, which has resulted in some accumulating large amounts of equity. This also provides a partial explanation for the substantial increase in the new home price that has been recorded over the past five years. This trend of positive net-migration is expected to continue over the forecast period, and will continue to provide support for the local housing market.

While the local housing market has been performing well above average since 2001, it is expected to continue to moderate from the peak level of 2004. Despite the expectation that both in-migration and interest rates will remain favorable in 2008 and into 2009, these will not be enough to counter a slower growing local economy. As such it is expected that the construction of both single and multiple starts will not match the level set in 2007.

Figure 2

**Average Price To Rise Over the Forecast Period**

Source: PEI Real Estate Board f: CMHC Forecast

# Rental Market

## Vacancy Rate to Decline in 2009

The vacancy rate should post a moderate decline in 2008 due to a combination of steady demand for rental accommodations and a general decline in the construction of new rental units in the Charlottetown area. This will result in the vacancy rate inching down to 4.0 per cent in October of this year from 4.3 per cent during the same period last year. In October 2009, it is expected that the vacancy rate will decline once again to 3.8 per cent, due to further declines in the supply of new units. However, demand will continue to be supported by in-migration. Expect a larger than average rent increase in 2009 due to the nine per cent allowable rent increase for heated units, that was approved by the Island Regulatory

and Appeals Commission in late 2008. Together these will result in average two-bedroom rents of $670 and $700 in 2008 and 2009 respectively.

# Resale Market

## MLS® Sales Will Not Match the Peak Level Set in 2007

The number of residential MLS® sales in the Charlottetown area is expected to decline over the next two years, due to the current economic environment. Since the start of the most recent economic cycle in 2000, the number of resale transactions in the Charlottetown area has only dropped below 500 sales once, and this is not expected to occur in either 2008 or 2009. While the level of sales is expected to decline from last year's level it is important to note that 2007 recorded the highest level of sales on record for the capital region. Despite the aforementioned variables working against the local market, there are still aspects that will provide demand for existing properties. Employment growth is expected to remain positive over the forecast period, interest rates should remain low and the rising cost of new homes will help provide support for MLS® as homebuyers opt for existing homes.

Average price growth is expected to take a breather in 2008 after increasing almost $30,000 in the last two years alone. This appreciation in local real estate was partially the result of increased activity in the Stratford area were the homes tend to be newer and as a result more expensive. There was also increased demand for properties with water frontage or water views, which tend to command the highest prices in the province. Expect the average MLS® sales price to grow by a more modest four per cent in 2008 before slowing to one per cent growth in 2009.

## New Home Construction Poised to Slow

New home construction in the Charlottetown CA will slow in 2008 and again in 2009, due to a decline in most unit types. Semi-detached units, for the homeownership market will remain relatively strong over the next two years. During the first three quarters of 2008, semi-detached starts maintained momentum from 2007, due mainly to their popularity with first-time buyers and this trend is expected to continue over the forecast period. As first-time buyers show a clear preference for new homes compared to existing homes, and with the rising cost of a new single-detached homes, many first time buyers will look to the semi-detached market.

Single starts, although slowing from the near record pace set in 2004, have continued to remain at above average levels. This decrease can be partially attributed to rising new home prices which have caused some potential buyers to opt for the resale market. The influx of people moving to the Island however should partially offset this and result in the construction of 275 new units in 2008 before slowing to 225 in 2009.

Rental starts have been on the decline every year except one since reaching a 15 year high in 2002 with 143 units. This has been due in part to a rising vacancy rate which reached 4.3 per cent in 2007, from the almost record low of 1.8 per cent in 2001. With the vacancy rate expected to stay near the four per cent mark over the forecast period, expect to see developers continuing to focus on multiple starts for the home-ownership market. As such, rental starts are expected to remain below the ten year average over the forecast period.

## Forecast Summary
## Charlottetown CA
## Fall 2008

| | 2005 | 2006 | 2007 | 2008f | % chg | 2009f | % chg |
|---|---|---|---|---|---|---|---|
| **Resale Market** | | | | | | | |
| MLS® Sales | 556 | 634 | 650 | 575 | -11.5 | 500 | -13.0 |
| MLS® New Listings | 783 | 903 | 970 | 940 | 1,000 | 900 | -4.3 |
| MLS® Average Price ($) | 136,364 | 153,549 | 166,244 | 174,000 | 4.7 | 176,000 | 1.1 |
| **New Home Market** | | | | | | | |
| **Starts:** | | | | | | | |
| Single-Detached | 305 | 276 | 295 | 275 | -6.8 | 225 | -18.2 |
| Multiples | 143 | 191 | 99 | 100 | 1.0 | 100 | 0.0 |
| Starts - Total | 448 | 467 | 394 | 375 | -4.8 | 325 | -13.3 |
| **Average Price ($):** | | | | | | | |
| Single-Detached | 188,741 | 186,774 | 192,477 | 192,500 | 0.0 | 198,275 | 3.0 |
| **Median Price ($):** | | | | | | | |
| Single-Detached | 175,000 | 175,000 | 180,000 | 185,400 | 3.0 | 185,500 | 0.1 |
| New Housing Price Index (% chg.) | 4.2 | 2.2 | 1.3 | 3.0 | - | 3.0 | - |
| **Rental Market** | | | | | | | |
| October Vacancy Rate (%) | 4.4 | 4.8 | 4.3 | 4.0 | -0.3 | 3.8 | -0.3 |
| Two-bedroom Average Rent (October) ($) | 617 | 638 | 659 | 670 | - | 700 | - |
| **Economic Overview** | | | | | | | |
| Mortgage Rate (1 year) (%) | 5.06 | 6.28 | 6.90 | 6.75 | - | 6.31 | - |
| Mortgage Rate (5 year) (%) | 5.99 | 6.66 | 7.07 | 7.05 | - | 6.92 | - |
| Annual Employment Level (,000) | 31,600 | 32,175 | 32,450 | 32,500 | 0.2 | 32,825 | 1.00 |
| Employment Growth (%) | 2.0 | 1.8 | 0.9 | 1.0 | - | 1.0 | - |
| Unemployment rate (%) | 8.1 | 7.6 | 6.6 | 7.4 | - | 7.6 | - |
| Net Migration (P.E.I.) [1] | 16 | -111 | 868 | 500 | -42.4 | 325 | -35.0 |

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
**NOTE:** Rental universe = Privately initiated rental apartment structures of three units and over
(1) 2007 migration data is forecasted

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